

## Speech by Didier Sire, Gaz de France

Ladies and Gentlemen,

First of all I would like to thank the organisers of this 20<sup>th</sup> World Energy Congress for their invitation: this congress gives to different stakeholders a unique opportunity to exchange their views on major issues in the energy sector and it is an honour for me to be here, and on behalf of my company, Gaz de France, to deliver some key elements we feel useful for a fruitful debate in the current context of competition in the European energy market.

Before entering into the details, I would like to remind you about the general background to the theme of this session, which will enable you a better comprehension of the current situation:

- Liberalisation in the European energy sector started 10 years ago in a specific context: energy offer was abundant in Europe and the price rather low.
- In this context the EU adopted two Directives whose purpose was the completion of an internal energy market through the establishment of competition in the gas and electricity sector.
- These Directives implemented liberalisation of the energy sector in Europe by introducing major changes, which implied:
  - *A gradual opening up to competition* (final stage was 1<sup>st</sup> July 2007);
  - *Substantial changes in the industrial organisation:*
    - third party access to the transmission and distribution networks for any energy supplier;
    - same conditions of access for any operator;
    - creation of national regulators;
    - and, in order to guarantee the independence of system operators and prevent discriminatory behaviours, the legal unbundling of transmission and distribution activities within vertically integrated companies

Ten years later, where do we stand?

- The general context of energy in Europe has changed substantially compared to the past:
  - First, the price of energy rose significantly;

- Second, access to gas resources and security of supply are more than ever key elements for a sustainable European energy policy: the EU depends on imports for 59% of its supply, a figure expected to rise to 80% by 2030. Moreover gas is primarily bought from a small number of powerful producers outside Europe.
- Third, we now have to respond to policy objectives of sustainable development. The EU has set ambitious targets for 2020: 20% of renewables in the EU's and Member States' energy mix;
- Fourth, huge investments are required. In the gas industry alone, expected investments are estimated at about 150 billion US dollars/year until 2030 according to the International Energy Agency. This fact may probably illustrate the reasons why we are facing an acceleration of the mergers of some major energy companies in Europe.
- Despite these important changes, which occurred in less than ten years, the EU Commission began to work on a third, package in 2005. Its objective was to deal with several dysfunctions of the internal market :
  - slow opening,
  - lack of harmonisation, especially concerning the powers of national regulators,
  - insufficient regulation at the European level,
  - important differences between Member States for technical standards, third party access rules,
  - abuse of dominant position concerning network access, ...

The Commission run different analyses and finally presented on the *10 January 2007* new policy objectives within an "*Energy Package*".

For the first time, proposals were not limited to liberalisation and competition skills but were structured around the 4 following themes:

- security of supply,
- sustainable development,
- competitiveness
- completion of the internal market.

This was an important move in the traditional approach of the Commission and its new ambition to build a real European policy in the energy sector was unanimously supported by the different stakeholders.

On the basis of these fundamental elements, which were analysed and commented by the European Council and the European Parliament, the Commission presented on the *19th September 2007 two draft third Directives*.

However, these new measures mainly focus on the organisation of the internal gas and electricity market :

- Security of supply is not dealt with, and the directive relating to that topic has been postponed without giving clear indications on the forecast work timetable.
- Concerning the Green package, proposals should have been presented at the beginning of December and are not currently expected before the end of January 2008.

It was quite a bit frustrating to realize that the Commission could not reach its initial ambition and once again, gave the priority to liberalisation without finalizing the work on the other items.

To be completely honest, we have however to recognize that the mission was rather difficult: certain objectives are potentially contradictory : how can we reconcile security of supply and competitiveness? Protection of the environment and competitiveness? Each objective has its own logic and its own means or tools and it may be difficult to reconcile simultaneously different goals. At a certain point of time, it will be necessary to arbitrate between these objectives in order to find the adequate balance which will not jeopardize the key elements of a coherent and competitive European energy policy.

To come back to the proposals of the Commission, we must also recognise that it was, for many stakeholders, a bit frustrating to see that the debate focused on a very specific measure which is the Ownership Unbundling.

- If the Commission considers that full unbundling of transmission activities from the competitive part of energy integrated groups, is the most effective solution to promote competition, non-discrimination and sufficient investment, some Member States and operators are not convinced of the relevance of such a rule.
- They argue that the consequences of such a measure have not been properly analysed by the Commission and the content of the impact assessment that has been carried out does not really contribute to clear conclusions.
- In addition, the anti OU consider that this measure is unnecessary :

- Even in the US, pioneer in liberalisation, it has not been imposed and several models coexist;
- Furthermore, it does not guarantee investment.
- Moreover, they consider that this measure also endangers the European security of gas supply by weakening the bargaining power of the gas operators, creating difficulties to subscribe long-term commitments and to launch heavy investments.
- Lastly, they consider that the ISO solution such as proposed by the Commission in its draft Directive is not a real alternative to ownership unbundling. Theoretically, ISO models enable energy undertakings to retain ownership of their transmission assets but requires them to hand over the commercial management of their networks to an Independent System Operator.
- The Commission's proposal is based on a real deep ISO, which is not an alternative of the ownership unbundling :
  - it would be no more than a derogation subject to prior authorisation by the Commission;
  - the consequences would be exactly the same as in the case of ownership unbundling because the operators would give over all their powers to the ISO.
- That does not mean that the opponents to OU are not in favour of a real and efficient internal gas market.
- Gaz de France clearly supports the main objective of the Commission, which is to finalise the integration of the energy market and to promote "more Europe" in this sector namely through a European regulation, strong cooperation between TSOs, more harmonisation ....

But my company is firmly opposed to the ownership unbundling proposals. Instead of imposing controversial structural measures, whose efficiency is largely questionable and does not deal with the market's real problems, we consider that alternative solutions should be explored.

- In this respect Gaz de France has proposals for achieving a single market and would be pleased to debate on them with the various stakeholders. These proposals are based on four key points: Integrity, Independence, Investment and Integration.

✓ Integrity:

The integrity of European operators must be preserved: they must retain ownership of their industrial assets and their technical competencies in order to remain credible partners for the suppliers and be able to commit, through long-term contracts, to the major projects for future European gas supply.

✓ *Independence of transmission system operators:*

- The current legal framework needs to be strengthened (what we call “second-generation ownership unbundling”) by eliminating any room for interpretation left by the second directive and by aligning rules on current best practices.
- The rules ensuring independence must be stated explicitly in guidelines for good practices, whose content has to be standardised at the European level.
- Commission-approved external auditors, responsible for managing an annual certification system, must monitor their implementation on a yearly basis.

✓ *Investment*

- To ensure that the market will not be blocked by physical network constraints, operators need a global, Europe-wide vision of necessary medium-term investment, for instance through 10-year development plans;
- Regulators must approve these plans and monitor their implementation to avoid discrimination and ensure an appropriate rate of return for investors.

✓ *Integration of the market*

- First of all, residual disparities between Member States must be eliminated.
- Technical standards and the prerogatives entrusted to national regulators need to be harmonised.
- Cooperation tools between transmission system operators must be implemented so as to increase market integration and improve conditions for network users. For example, regional system operators could be created in a progressive and pragmatic way. To begin, the first objective could be to create “one stop shop interfaces” on large regional scales ; this would enable shippers to book capacities with a single interface and drastically simplify network access.

• Lastly, an appropriate regulation should accompany these measures. This requires:

- ✓ a precise regulatory framework;
- ✓ a clear delineation from other regulations, especially from competition law;
- ✓ national regulators, independent and with strong prerogatives;

- ✓ and a European Agency to coordinate these regulators and work on issues involving several Member States.

*To sum-up*, alternatives exist to the Commission's proposals and it is not acceptable to disregard the former without sufficient analysis, as it has been done in the Impact Assessment.

The current situation is uncomfortable and could lead to numerous litigations. These uncertainties could prevent operators from making necessary investments in the European gas infrastructures.

In conclusion, I would like to stress that globally, there is now a consensus among all stakeholders in favour of an efficient, long-term European energy policy. The EU Commission has made proposals. We are not convinced that these proposals are the most appropriate ones to reach our common goal. We have made concrete counter-proposals and are ready to debate on all of these issues.

Ladies and Gentlemen, Thank you for your attention.